

(H. B. 2197)

**(No. 228-2014)**

(Approved December 17, 2014)

## **AN ACT**

To add a paragraph (14) to subsection (b) of Section 1031.01 and amend subparagraph (F) of paragraph (3) of subsection (a) of Section 1031.02 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico”; in order to include certain exclusions and exemptions from gross income; and for other related purposes.

### **STATEMENT OF MOTIVES**

Puerto Rico’s economy is facing one of its most challenging times since the creation of the Commonwealth. The value of real property has dropped significantly, thus affecting the value of most Puerto Ricans’ main investment and source of capital, that is, their homes. Furthermore, there is lack of liquidity in the real estate market and the construction sector, one main engines of our economy, and it has contracted dramatically. Providing this market with liquidity would bring it back as one of the main engines of Puerto Rico’s economy.

In view of this situation, we must find other mechanisms to promote the sale of real property and the refinancing of existing homes, which would boost the economy through investments in construction and the direct and indirect jobs created as result thereof. It would also promote the investment of capital in Puerto Rico and prevent the outflow of capital to other jurisdictions, thereby increasing the capital base of Puerto Ricans.

It is critical to implement legislation that promotes and incentivizes the existing real property market which shall, in turn, incentivize other economic sectors. The current state of our economy requires us to take immediate action as a legislative body of the benefit of our people.

This Act provides that interest paid or accrued on all mortgages on residential property located in Puerto Rico, executed after January 1<sup>st</sup>, 2014, and secured or guaranteed by virtue of the provisions of the National Housing Act, approved on June 27, 1934, as amended, or by virtue of the provisions of the Servicemen's Readjustment Act of 1944, as amended, shall be exempt from taxation. Said exclusion from the gross income shall reduce the financing costs for buying properties secured by mortgages, and boost the sales and refinancing thereof.

This Bill shall serve to achieve a series of tangible short-term benefits. These benefits promote economic growth, which is of utmost importance to have a more competitive economy, with an even more attractive investment climate, and consumers that feel hopeful as a result of the economic activity generated by this legislation.

Among said benefits, this legislation shall:

- Provide a relief to the pockets of Puerto Rican families, by promoting lower interest rates; rates that may be one percent (1%) or lower than the current rates, monthly payments shall be much lower leaving more money in the pockets of consumers.
- Help more families qualify for buying their own homes by benefiting from lower payments.
- Offer tax exemptions that promote the investment of local capital that is currently being invested outside of Puerto Rico, thus preventing the erosion of this capital which shall serve to boost economic growth locally.

- Promote the purchase of housing with more attractive interest rates, thus helping to reduce the current excess of real estate inventory in Puerto Rico.
- Incentivize the creation of new construction projects thus creating more direct and indirect jobs which shall promote economic activity.

The enactment of this Act shall be of great benefit for Puerto Rico. We have been experiencing economic stagnation for many years which has resulted in the loss of thousands of jobs and the outflow of local capital. This legislative measure touches upon many important elements to revive Puerto Rico's economy and support the construction sector, an essential engine of our economy, in order to promote job creation and address the excess housing inventory.

***BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:***

Section 1.- A new paragraph (14) is hereby added to subsection (b) of Section 1031.01 of Act No. 1-2011, as amended, to read as follows:

“Section 1031.01.- Gross Income

(a) ...

(b) Exclusions from Gross Income.- The following items shall be excluded from the definition of gross income:

(1) ...

(14) Interest on mortgages on residential property located in Puerto Rico executed after January 1, 2014 (including mortgages on newly-constructed properties that have been executed simultaneously with the first transfer of the mortgaged property to a new titleholder), and that is secured or guaranteed by virtue of the provisions of the National Housing Act, approved on June 27, 1934, as amended, or by virtue of the provisions of the Servicemen's Readjustment Act of 1944, as amended. The interest described in this subsection shall also be excluded from the any other contribution, tax, charge or excise tax provided by any Act of the Legislative Assembly. For the

purposes of this section, the term “newly-constructed” shall mean newly-built residential property.”

Section 2.- Subparagraph (F) of paragraph (3) of subsection (a) of Section 1031.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 1031.02.- Exemptions from Gross Income

(a) The following income items shall be exempt from taxation under this Subtitle:

(1) ...

(3) Tax Exempt Interest.- Interest on:

(A) ...

(F) Mortgages on residential property located in Puerto Rico executed after July 31, 1997 and before January 1, 2014, that are newly-constructed and have been executed simultaneously with the first transfer of the mortgaged property to a new titleholder. For the purposes of this section, the term “newly constructed” shall mean newly-built residential property that is secured or guaranteed by virtue of the provisions of the National Housing Act, approved on June 27, 1934, as amended, or by virtue of the provisions of the Servicemen’s Readjustment Act of 1944, as amended.”

Section 2.- Effectiveness

This Act shall take effect for all taxable years beginning after December 31, 2013.

## CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 228-2014 (H. B. 2197)** of the **4<sup>th</sup> Regular Session** of the **17<sup>th</sup> Legislative Assembly of Puerto Rico**:

**AN ACT** add a paragraph (14) to subsection (b) of Section 1031.01 and amend subparagraph (F) of paragraph (3) of subsection (a) of Section 1031.02 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico”; in order to include certain exclusions and exemptions from gross income; and for other related purposes.

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 8<sup>th</sup> day of October, 2021.

Mónica Freire-Florit, Esq.  
Director